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Policy Support Memorandum

Office of Transnational Issues

26 September 2000

Measures to Increase Pressure on the Milosevic Regime After Elections ☐

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(b)(3)

The EU and US could tighten sanctions against the FRY if Milosevic remains in power after the 24 September elections or instigates military action against Montenegro. The EU almost certainly would not lift diplomatic or financial sanctions under either scenario for fear of conferring legitimacy on Milosevic, despite many EU members' beliefs that trade financing sanctions have failed. While it is unclear if the EU has the political will to impose new sanctions, member countries are well positioned to increase the impact of existing sanctions. ☐

EU Members Have Room for Improvement on Sanctions Enforcement ☐

A lack of clear guidelines on monitoring and enforcement responsibilities from the European Commission (EC) and at the national level has impeded EU member country enforcement of trade financing sanctions against the FRY.

- Because EC regulations do not include formal definitions of sanctions terminology, member state officials have different interpretations of what constitutes a trade financing sanctions violation.
- The EC could help member countries clarify the role and authority of their various government entities involved with FRY sanctions in order to improve coordination on monitoring and enforcement. European central banks also need assistance in making sanctions-related obligations explicit to commercial banks and clarifying definitions of sanctions terms in the EU regulations such as "trade financing." ☐

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FRY Borders Remain Porous

Serbia maintains good trade relations with several neighboring states, which reduces the impact of EU sanctions. Three FRY neighboring countries – Hungary, Bulgaria, and Romania – are candidates for EU membership and may respond to EU pressure to uphold sanctions and improve their border controls with the FRY. Albania, Bosnia, Macedonia, and Croatia also may respond to EU pressure in order to maintain 95 percent duty-free trade with EU members and secure EU Stabilization and Association Agreements (SAA).

- Most FRY oil transits through Bulgaria and Hungary.
- The FRY uses Romanian equipment in reconstruction projects and recently met with the Romanian Chamber of Commerce to discuss resumed cooperation between Serb and Romanian companies.

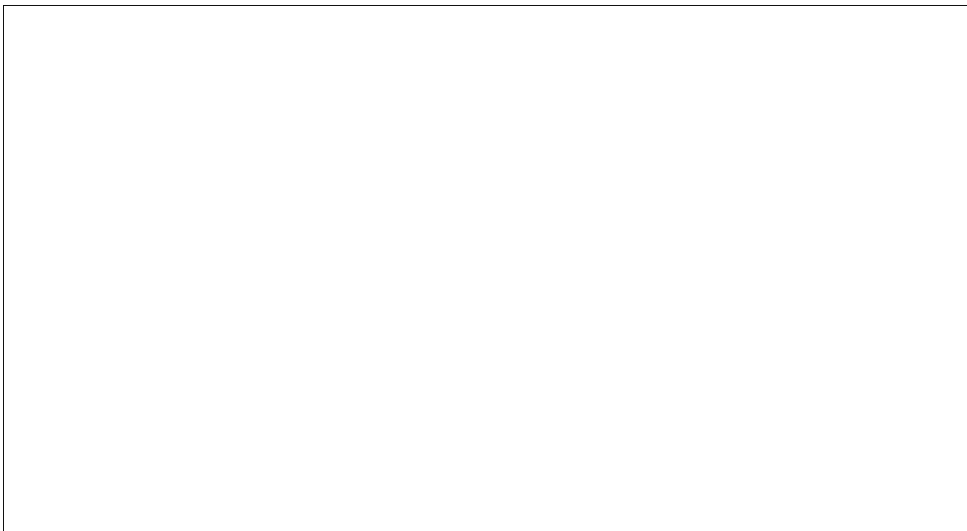
Serb Financial Flows to Europe Continue Despite EU Sanctions

This memorandum was prepared by the Office of Transnational Issues. Comments and queries are welcome and may be directed to the Chief, OTI

~~Top Secret~~

FRY Regime Manipulates Grain Exports to Obtain Hard Currency

Nearly one-third of Serbia's fungible financial base comes from the grain trade, [redacted] The Serbian grain trade, though small, generates foreign exchange for Milosevic associates and government officials. An EU ban on FRY wheat exports could eliminate a vital source of hard currency to the regime.



Alternatively, the EU could prohibit aid-related grain purchases from FRY grain companies and ban aid-related wheat imports to Serbia while the country continues to export grain. [redacted]

FRY Searching for Alternative Banking Locations

The Milosevic regime is sending banking officials and trade delegations to South America, Asia, Africa, and the Middle East to establish trade relations and create new financial havens to replace those lost in Europe and Cyprus. The impact of EU sanctions will be reduced if these countries extend loans to the FRY or allow Serbs to use their banking facilities.

- Sanctions would have greater impact if the US and EU seek to broaden participation in the sanctions regime following the 24 September elections. Currently, the US, EU member states, EU accession states, Norway, Switzerland, Japan, and Australia maintain sanctions against the FRY.
- Sanctions against the FRY could have greater international validity and impact if they were introduced at the UN level. This would be a more viable option if the situation in Serbia becomes violent after the election. [redacted]